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29 August 2014

Version of attached file:

Accepted Version

Peer-review status of attached file:

Peer-reviewed

Citation for published item:

Moore, G. and Beadle, R. and Rowlands, A. (2014) 'Catholic social teaching and the firm. Crowding in virtue : a MacIntyrean approach to business ethics.', *American Catholic philosophical quarterly.*, 88 (4). pp. 779-805.

Further information on publisher's website:

<http://dx.doi.org/10.5840/acpq201491830>

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Catholic Social Teaching and the Firm.

Crowding in Virtue: a MacIntyrean Approach to Business Ethics

Geoff Moore, Ron Beadle and Anna Rowlands

Abstract.

Catholic Social Teaching (CST) aspires to an economy that serves needs, upholds justice and inculcates subsidiarity. But it suffers from a significant omission—it fails to look ‘inside’ the business organisations that comprise the fundamental building blocks of the economic system. It is therefore ill-equipped to suggest how businesses could be reformed to meet these aspirations. MacIntyre’s Thomistic Aristotelian account of the relationships between goods, virtues, practices and institutions provides resources which could enable CST to overcome this lacuna.

This paper describes the MacIntyrean account and compares it with CST’s existing categories. It then analyses the case of the Lloyds Banking Group. This allows not only diagnosis but potentially a prescriptive account of how virtue may be ‘crowded-in’ to business organisations. The paper concludes by suggesting that this approach might make a distinctive contribution to CST, and hence enable CST to make an even more significant contribution to business ethics.

Keywords

Catholic Social Teaching, Crowding-in, Goods, Institutions, Lloyds Bank, MacIntyre, Practices, Virtues

Introduction.

Set within the context of Catholic Social Teaching (CST), the papers delivered at Cambridge University in the 2012 Margaret Beaufort lecture series on ‘The crisis of capitalism and the common good’ offered an eclectic mix of perspectives on the subject matter to hand. But they were consistent in one respect—their collective failure to look ‘inside’ the business organisation that forms the basic building block of the economic system.¹ In a similar vein, a

¹ Stefano Zamagni in his contribution (“Imagining a Civil Economy”—hereafter Zamagni, *Imagining a civil economy*) did make mention of the organisation of work and of employment and labour issues and, more specifically, Daniel Finn (“On the moral ecology of markets”—hereafter Finn, *Moral ecology of markets*) did discuss briefly issues of corporate culture and of the standards of morality of both individuals and organisations. The papers are, as yet, unpublished.

product of the American Catholic ‘True wealth of nations’ project,² from which the Margaret Beaufort lectures drew, makes specific reference to ‘the corporation’ on just six pages in a 350 page volume,³ and even here the emphasis is on the corporation-as-institution rather than ‘opening up’ the corporation to scrutiny on the inside.

Pope Benedict XVI’s papal encyclical *Caritas in Veritate*,⁴ on the other hand, does offer a stakeholder view of the firm which has the merits of considering the role of business not only in relation to its shareholders but also to its various stakeholder groups such as workers, suppliers, customers, wider society and the natural environment. To that extent it provides some, though brief, consideration of the internal workings of the firm though, as Breen notes, it “does not specifically suggest how to adjust the corporate form to internalize values other than profit maximization”.⁵

There appears, therefore, to be a significant lacuna in CST in relation to the ‘inside’ of business organisations and hence to business ethics broadly defined. This paper seeks to show how a virtues-based approach, drawing on MacIntyre’s framework of goods, virtues, practices and institutions, might contribute to CST in this regard. The paper proceeds as follows. First, MacIntyre’s Thomistic Aristotelian account is provided. Second, we summarise CST and outline the compatibilities and incompatibilities of the MacIntyrean approach to that of CST. In the third section we then consider a particular case study in order to ground the discussion. Lloyds Bank in the UK has recently been fined by the Financial Conduct Authority for the mis-selling of financial products. It provides a salutary example of how virtue was crowded out from the internal workings of the firm. This then leads to a consideration of how virtue might be ‘crowded in’ to business organisations. We conclude by suggesting that CST might be developed along these lines to overcome the observed deficiency, and hence how it might make an even more significant contribution to business ethics than has hitherto been possible.

I.

Goods, Virtues, Practices, Institutions.

If businesses are to be places in which common goods are to be achieved, as CST maintains they should, then we need to know what might enable and what might frustrate this.

MacIntyre’s conceptual framework of goods, virtues, practices and institutions, presented in

² Daniel Finn, (Ed.) *The true wealth of nations. Catholic social thought and economic life*, (New York: Oxford University Press, 2010).

³ Jon Gunneman, “Capitalism, spirit and common wealth”, in Daniel Finn (Ed.), 2010: 289-317.

⁴ Pope Benedict XVI: *Caritas in Veritate*, 2009, at para. 40, available from http://www.vatican.va/holy_father/benedict_xvi/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate_en.html, accessed 18 February 2014.

⁵ John M. Breen, “Love, truth and the economy: a reflection on Benedict XVI’s *Caritas in Veritate*,” *Harvard Journal of Law and Public Policy* 33, 3 (2010): 987-1029, at 1015.

his seminal *After Virtue*⁶ and applied in his work thereafter, provides guidance not just for business organisations but for organisations of all kinds and, indeed, for any and all human associations in which work is undertaken and goods produced.

The breadth of MacIntyre's framework not only suggests its explanatory scope but also the extent to which business organisations share with other forms of productive association (e.g. churches) both the potential for the achievement of genuine human goods and for their corruption. His substantive comments on business have been overwhelmingly critical⁷ and would be of little interest if they were unaccompanied by an explanation of the particular vulnerabilities of business organisations to certain types of corruption. This is, however, just what he provides—a conceptual framework which establishes the conditions for the achievement of common goods and how these conditions are undermined. What is this framework?

The goods achieved and enjoyed within human associations, including in organisations of different kinds, are here defined as goods 'internal to' the practices whose work comprises the activity of the association. So, for example, appropriate diagnosis stands to medicine and composition to music as goods internal to practices. Such goods include both the excellence of products and the perfection of the individual *qua* practitioner.⁸ In turn the practices of which they are partially definitive comprise

“[a]ny coherent and complex form of socially established cooperative human activity through which goods internal to that form of activity are realized in the course of trying to achieve those standards of excellence which are appropriate to, and partially definitive of, that form of activity ...”⁹

Whilst practices differ significantly, not least between those whose focus is material and in which technical rationality is likely to predominate, and those whose focus is human action and interaction and in which wisdom predominates,¹⁰ the achievement of goods internal to every practice requires the exercise of the virtues, and this for three distinct reasons. First without temperance, fortitude, patience, diligence and the like we cannot develop the practical knowledge and technical skills which enable us to succeed in the tasks of practice, tasks which require more of us as we progress.¹¹ Practices are ordered hierarchically so we cannot become architects without learning about the properties of

⁶ Alasdair MacIntyre, *After Virtue* 3rd edn. (London: Duckworth, 1981/2007). Hereafter MacIntyre, *AV*.

⁷ John Dobson, “Alasdair MacIntyre's Aristotelian Business Ethics: A Critique,” *Journal of Business Ethics* 86, 1 (2009): 43-50.

⁸ Alasdair MacIntyre, “A partial response to my critics.” In John Horton & Susan Mendus (Eds.) *After MacIntyre* (Cambridge: Polity Press, 1994), 283-304. Hereafter MacIntyre, *A partial response*, and Horton & Mendus, *After MacIntyre*. See also MacIntyre *AV*, at 189-90.

⁹ MacIntyre *AV*, at 187.

¹⁰ Joseph Dunne, “An Intricate fabric: understanding the rationality of practice,” *Pedagogy, Culture and Society* 13, 3 (2005): 367-389. Hereafter Dunne, *Rationality of practice*.

¹¹ Dunne, *Rationality of practice*.

different materials, we cannot become engineers without an understanding of calculus, and so on. But technical skills alone do not enable us to achieve and enjoy the goods internal to practices; we also need to understand the purposes of practices and our accountabilities in relation to them. Our work as practitioners requires us to recognise good reasons for engagement, not for this or that practitioner, but good reasons as such within the practice, to learn about the factors that must be taken into account in our practice and those that must not:

“Particular physicians and teachers may be motivated by a wide range of desires: for money, for prestige, for power, but it is only insofar as they pursue the end of the medical art or the end of the school that they are good physicians or good teachers.”¹²

Decisions around, for example, the appropriate use of tools, the precision of calculations *and* decisions around the ingredients in a dish and the colours in a portrait are to be judged by standards of excellence that have emerged over time from deliberations between practitioners:

“The standards of achievement within any craft are justified historically. They have emerged from the criticism of their predecessors and they are justified because and insofar as they have remedied the defects and transcended the limitations of those predecessors as guides to excellent achievement within that particular craft.”¹³

We come to learn about such standards and about their justification through on-going deliberative enquiry, and to treat ourselves and our fellow practitioners as rational agents pursuing common enquiries into the tasks that confront us requires us to enjoy a particular quality of relationship. This provides a second set of dependencies upon the virtues; for in order to become practitioners we must order our relationships with those from whom we initially learn, those with whom we will subsequently work, those who will be subject to our work and those whom we will ultimately teach, in adherence to the precepts of natural law. To begin we need a teacher and:

“we shall have to learn from that teacher and initially accept on the basis of his or her authority within the community of a craft precisely what intellectual and moral habits it is which we must cultivate and acquire if we are to become effective self-moved participants in such enquiry. Hence there emerges a conception of rational teaching authority internal to the practice of the craft of moral enquiry, as indeed such conceptions emerge in such other crafts as furniture making and fishing, where, just as in moral enquiry, they partially define the relationship of master-craftsman to apprentice.”¹⁴

¹² Alasdair MacIntyre, “Intractable Moral Disagreements.” In L. Cunningham (Ed.) *Intractable Disputes about the natural law—Alasdair MacIntyre and Critics* (Notre Dame: University of Notre Dame Press, 2009), at 47.

¹³ Alasdair MacIntyre, *Three Rival Versions of Moral Enquiry* (London: Duckworth, 1990), at 64. Hereafter MacIntyre, *TRV*. In MacIntyre’s terminology, crafts are examples of practices.

¹⁴ MacIntyre, *TRV*, at 63.

As we progress within the practice we learn to deliberate well about the achievement of goods internal to practices, for to judge rightly in concrete and particular cases requires us to listen appropriately, to correct others (whatever their status) when they err and to gratefully receive such correction ourselves. In other words we learn about justice, courage and wisdom.¹⁵

The third role of the virtues requires us to understand the relationship between practices and the institutions within which they are housed. For inasmuch as practices are ordered to the achievement of internal goods so institutions must be ordered to the achievement of external goods.¹⁶

MacIntyre provides a number of illustrations, “Chess, physics and medicine are practices; chess clubs, laboratories, universities and hospitals are institutions”.¹⁷ Business organisations, it has been argued, can be considered in the same vein, and hence can be regarded as a particular type of institution which houses one or more practices and whose products or services it provides for customers.¹⁸ Selling products and services to customers is the defining characteristic of business, the process through which it generates sufficient external goods to maintain itself as an institution. But this process creates particular temptations and vulnerabilities which are characteristic of but not unique to business: “it is ... always possible for a particular individual or social group *systematically to subordinate goods of the one kind to goods of the other*”,¹⁹ and we can infer from this that it is internal goods which will normally be subordinated to external goods. Thus, each and every process through which institutions receive the resources they need is potentially corrupting, whether this is the need to acquire appropriate patrons for the arts and sciences of 15th century Europe, the need for state support for the circus artists of the Soviet Union, or the need for companies to generate revenue from customers, extract labour from employees or capital from investors. In each case sponsors and others must be persuaded, but may be manipulated or coerced, into providing the necessary resources.

In negotiating such relationships the legitimate if subordinate institutional objective may be all too easily transformed into an illegitimate and superordinate objective. Investors may be promised too much, customers mis-sold, labour exploited, costs reduced and quality eroded in order to meet financial targets and so on.²⁰ In short the pursuit of external goods may come to dominate decision making and in some cases to degenerate into avarice.²¹ The third

¹⁵ MacIntyre, *TRV*, at 201.

¹⁶ MacIntyre, *AV*, at 194.

¹⁷ MacIntyre, *AV*, at 194, and see Geoff Moore, “Churches as organisations: towards a virtue ecclesiology for today,” *International Journal for the Study of the Christian Church* 11, 1 (2011): 45-65 for an application of MacIntyre’s framework discussed here to churches.

¹⁸ Ron Beadle, “Why Business is not a Practice,” *Analyse and Kritik* 30, 1 (2008): 227-241.

¹⁹ Alasdair MacIntyre, *Whose Justice, Which Rationality?* (London: Duckworth, 1988), at 35, emphasis added.

²⁰ James Hine, “The Shadow of MacIntyre’s manager in the Kingdom of Conscience constrained,” *Business Ethics: A European Review* 16, 4 (2007): 358-371.

²¹ Alasdair MacIntyre, *Marxism and Christianity*, 2nd Ed. (London: Duckworth, 1995), at xiii.

role of the virtues, then, is in so ordering institutions that they serve rather than corrupt practices. It is here that we find the tension central to MacIntyre's sociology of practices and institutions, that between the generation and prioritisation of internal and external goods.²² Empirical work using MacIntyre's framework has illustrated cases in which virtue requires courageous resistance to vicious purposes,²³ withdrawal from institutions in order to found alternatives,²⁴ the re-establishment of professional values and commitments²⁵ and whistle-blowing.²⁶ In each case:

“The virtues which we need in order to achieve both our own goods and the goods of others ... only function as genuine virtues when their exercise is informed by an awareness of how power is distributed and of the corruptions to which its use is liable. Here as elsewhere in our lives we have to learn how to live both with and against the realities of power.”²⁷

Figure 1 below presents this framework of goods, virtues, practices and institutions diagrammatically.²⁸

²² Geoff Moore & Ron Beadle, “In search of organisational virtue in business: agents, goods, practices, institutions and environments,” *Organisation Studies* 27, 3 (2006): 369-89.

Hereafter Moore & Beadle, *Organisational virtue*. Keith Breen, “Production and Productive Reason,” *New Political Economy* 17, 5 (2012): 611-632.

²³ Mervyn Conroy, *An Ethical Approach to Leading Change: An Alternative and Sustainable Application* (Basingstoke: Palgrave Macmillan 2010); Tracy Wilcox, “Human Resource Management in a Compartmentalized World: Whither Moral Agency?” *Journal of Business Ethics* 111 (2012): 85-96

²⁴ Georg Von Krogh, Stefan Haeffliger, Sebastian Spaeth & Martin W Wallin, “Carrots and Rainbows: Motivational and Social Practice in Open Source Software Development,” *MIS Quarterly* 36 (2012): 649-676

²⁵ Bert van de Ven, “Banking after the crisis: Towards an understanding of Banking as a Professional Practice,” *Ethical Perspectives* 18, 4 (2011): 541-568. Hereafter van de Ven, *Banking as professional practice*.

²⁶ Ron Beadle & Geoff Moore, “MacIntyre: neo-Aristotelianism and organization theory,” *Research in the Sociology of Organizations* 32 (2011): 85-121. Hereafter Beadle & Moore, *Organization theory*.

²⁷ Alasdair MacIntyre, *Dependent Rational Animals. Why human beings need the virtues* (London: Duckworth, 1999), at 102. Hereafter MacIntyre, *DRA*.

²⁸ See Moore & Beadle, *Organizational virtue*; Geoff Moore, “Re-imagining the morality of management: a modern virtue ethics approach,” *Business Ethics Quarterly* 18, 4 (2008): 483-511.

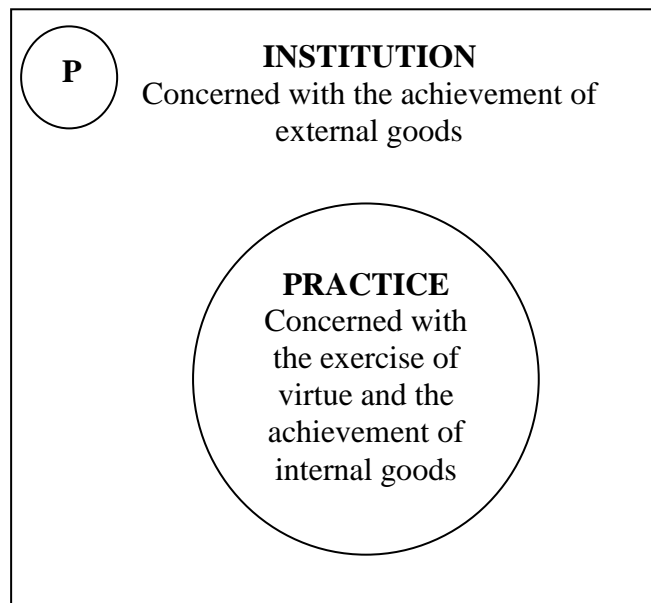


Figure 1. The practice-institution combination

There is, however, one further aspect of this diagram that we have not so far considered. In addition to what we might helpfully refer to as the core practice at the heart of the institution, there is also the practice of the making and sustaining of the institution – shown in Figure 1 by the ‘P’ within the circle in the top left hand corner. As MacIntyre argues:

“the making and sustaining of forms of human community—and therefore of institutions—itself has all the characteristics of a practice, and moreover of a practice which stands in a peculiarly close relationship to the exercise of the virtues ...”²⁹

This, then, also requires virtuous agents at the institutional level if the institution is to serve its proper, but subordinate function. But this also implies that those who manage the institution, regardless of the extent of their engagement with the core practice, have the opportunity to gain the internal goods available from this rather different practice of institution-making. Management may, on this understanding, be re-described as a domain-relative practice.³⁰

On this account, then, organisations as practice-institution combinations are “*essentially moral spaces*”.³¹ In other words, individuals, whether involved in the core practice (whatever that may be), or in the secondary practice of making and sustaining the institution, have the opportunity to exercise and, indeed, to develop the virtues. But, as will be clear by now, what

²⁹ MacIntyre, AV, at 194-5, emphasis added.

³⁰ Gregory Beabout, “Management as a Domain-Relative Practice that Requires and Develops Practical Wisdom,” *Business Ethics Quarterly* 22, 2 (2012): 405-432. Hereafter, Beabout, *Management as practice*.

³¹ Beadle & Moore, *Organization theory*, at 103, emphasis in original.

this framework also offers is a way of looking ‘inside’ business organisations, at the practices which form their core, and relating these practices to the institutional form which houses them. And, as we noted above, the inherent tension that exists between the practice and the institution, between internal and external goods, becomes readily apparent, and the vulnerabilities of “the ideals and the creativity of the practice ... to the acquisitiveness of the institution, [and of] the cooperative care for common goods of the practice to the competitiveness of the institution”³² becomes clear. In other words, the ‘black box’ of the business organisation is open for inspection and analysis, and even for prescription as to how common goods might more effectively be achieved.

The virtuous business organisation

Following MacIntyre, therefore, we can describe properly ordered business organisations as practice-institution combinations. However, for such entities to be virtuous five pre-requisites can be identified.³³

The first is a teleological pre-requisite—that the particular organisation has a good purpose. And, as Beabout and Kempster et al. have recently argued,³⁴ institutional leaders are pivotal to the practice-institution relationship not only in their decision-making processes and criteria but also in the institution’s own sense-making around purpose.

In relation to the purpose of the organisation, we can make a helpful comparison with purpose at the individual level. MacIntyre draws on Aristotle’s notion of *eudaimonia* (“blessedness, happiness, prosperity. It is the state of being well and doing well, of a man’s [*sic*] being well-favoured himself and in relation to the divine”)³⁵ to argue, in his terms, that *the* good for an individual will arise from some combination of the internal goods achieved from the various practices in which the individual engages. But he extends this to the notion of the common good, the “goods of those types of communities in and through which the goods of individual lives are characteristically achieved”.³⁶ Thus, and according to McCann and Brownsberger:

“... the normative character of MacIntyre’s definition of a social practice ... is secured within a larger account of the moral life as a whole. There must be some *telos* to human life, a vision anticipating the moral unity of life, given in the form of a narrative history that has meaning within a particular community’s traditions; otherwise the various internal goods generated by the range of social practices will remain disordered and potentially subversive of one another. Without a community’s

³² MacIntyre, *AV*, at 194.

³³ See Geoff Moore, “Virtue in business: Alliance Boots and an empirical exploration of MacIntyre’s conceptual framework,” *Organisation Studies* 33, 3 (2012), 363-387, at 366-7. Hereafter Moore, *Virtue in business*; Moore & Beadle, *Organisational virtue*, at 375-80.

³⁴ Beabout, *Management as practice*; Steve Kempster, Brad Jackson & Mervyn Conroy, “Leadership as purpose: Exploring the role of purpose in leadership practice,” *Leadership* 7, 3 (2011): 317-334.

³⁵ MacIntyre, *AV*, at 148.

³⁶ MacIntyre, *A partial response*, at 288.

shared sense of *telos*, there will be no way of signifying ‘the overriding good’ by which various internal goods may be ranked and evaluated.”³⁷

If we now apply this at the level of the organisation, the same line of argument follows. The internal goods of the practice are, in the case of a business organisation, “the excellence of the product or service and the perfection of the practitioners in the process”.³⁸ The common good, however, is not the simple combining of internal goods from all practices, but will involve an evaluation and ranking of such goods. Given that, “... the ordering of goods within the activities of individual lives, so that the good of each life may be achieved, is found to be inseparable from the ordering of those goods in achieving the common good”,³⁹ so there will need to be a similar process by which the internal goods of various practices are ordered to achieve the common good: “In contemporary societies our common goods can only be determined in concrete and particular terms through widespread, grassroots, shared, rational deliberation.”⁴⁰ The implication for a business organisation, as with any productive association, is that virtue requires an engagement in discussion, both internally and with appropriate communities, as to what its internal goods offer in contribution to the common good of those communities.

The second pre-requisite is that the institution’s primary task is to nurture the particular core practice which is at its heart and to sustain the pursuit of excellence within that practice. In this context the impact of the mode of institutionalization on the relative priority afforded to the pursuit of the external and internal goods is critical.⁴¹ Thus, for example, financial services are provided by shareholder-owned and stock-market listed banks and by mutually owned societies (building societies in the UK). We might anticipate that such difference in institutional form would lead to a variance in the extent to which the core practice is nurtured—a point to which we will return in considering the Lloyds’ case below. However, it is also the case that the external goods which institutions generate serve a necessary function (they are *goods*). As such, the virtuous organisation must ensure that it secures sufficient external goods to sustain itself and to provide the resources necessary for the maintenance and development of the practice. This, of course, may well be some distance from the profit-maximising position of many businesses.

This, however, leads to a further consideration of internal and external goods and how they interact. While it is clear that internal goods are goods which are valued for their own sake, and should therefore be prioritized, it is also clear that it is impossible to attain them without

³⁷ Dennis McCann & M.L. Brownsberger, “Management as a social practice: rethinking business ethics after MacIntyre,” *The Annual of the Society of Christian Ethics*, (1990): 223-245.

³⁸ Moore, *Virtue in business*, at 366; and see also MacIntyre, *A partial response*, at 284, and MacIntyre AV, at 189-90, cited above.

³⁹ MacIntyre, *A partial response*, at 288.

⁴⁰ Alasdair MacIntyre, “Intolerance, censorship and other requirements of rationality.” Lecture delivered at London Metropolitan University, 28 October 2010, available from www.londonmet.ac.uk/research-units/hrsj/events/public-events/, accessed 18 February 2014.

⁴¹ MacIntyre, *A partial response*, at 289; Moore & Beadle, *Organisational virtue*, at 377-8.

access to external goods. And, indeed, it is also impossible to attain external goods without internal goods. There is, thus, an “essential but complex circularity between internal and external goods” including a recognition that “this can occur both within and outside of particular practice-institution combinations, through the use of external goods derived from one ... combination to engage in another practice in order to obtain the internal goods therein”.⁴² The third pre-requisite which follows from this, again for both business organisations and any other productive association, is that virtue requires an “appropriate balancing in the pursuit of internal and external goods.”⁴³ And this, of course, will require judgment to be exercised, such judgment also being something which practitioners have to learn.⁴⁴

The fourth pre-requisite follows logically from the first three: the virtuous business organisation will require a sufficient number of virtuous agents in both the core practice and its institutional embodiment to ensure the determination and pursuit of a good purpose, the nurturing of the core practice, and, as above, the necessary balanced judgment in the pursuit of internal and external goods.⁴⁵

The fifth and final pre-requisite for a virtuous business organisation is a conducive environment.⁴⁶ Just as there is a need within both the core practice and the institution for virtuous agents, there is also a need outwith the organisation for an environment which allows, or perhaps even nurtures, virtue in the organisational forms which it supports. A starting point here might be to ask whether the environment (regulatory, market, labour and capital) discriminates between organisations in ways related to their exercise of the virtues and protection of practices.⁴⁷ However, it is also of note that the environment is not simply a ‘given’, but something which business organisations “may, to some extent, be able to create or choose ... and that exercising this discretion is a feature that we might expect to find in the virtuous corporation.”⁴⁸

Having described the conceptual framework which MacIntyre offers, and considered the pre-requisites for virtue in such practice-institution combinations, we turn now to CST to consider the extent to which MacIntyre’s framework is consistent with and might make a contribution to, this body of work.

⁴² Moore, *Virtue in business*, at 380.

⁴³ Moore, *Virtue in business*, at 367.

⁴⁴ Dunne, *Rationality of practice*; J. Halliday & M. Johnsson, “A MacIntyrian Perspective on organizational learning,” *Management Learning* 41, 1 (2009): 37-51.

⁴⁵ See Moore & Beadle, *Organisational virtue*, at 376.

⁴⁶ Moore & Beadle, *Organisational virtue*, at 378-80.

⁴⁷ For a somewhat similar account see Finn’s consideration of the rules that define markets; the provision of essential goods and services; the morality of individuals and organisations; and civil society, Finn, *Moral ecology of markets*.

⁴⁸ Moore & Beadle, *Organisational virtue*, at 385.

II.

Comparisons with Catholic Social Teaching.

Catholic Social Teaching is a body of theological ethics, emerging in its contemporary form from a series of global social letters issued by the papacy from 1891 to the present day. During the twentieth century this corpus of socio-economic reflection was augmented at a subsidiary level by documents produced by national and regional bishops' conferences and specialist Vatican departments.⁴⁹ Whilst these teaching documents have engaged with a wide range of social matters, the predominant emphasis has been upon the conditions of economic life, particularly the relations of labour and capital.

The key economic commitments proposed by CST tend to be summarised as: a call for living wages and just prices, a right to private property but based on the principle of universal access, profit sharing, co-management and co-ownership of the means of production, a principled commitment to full employment, and a commitment to basic welfare provision based on need rather than productivity. Despite the unsystematic and heterogeneous exposition of economic ethics in the social encyclicals, reflection on economic life emerges from three structural foci within the official documents: core guiding principles, foundational theological anthropology, and a teleological account of the purposes of economic life.⁵⁰ First, CST proposes a set of permanent social principles, which it sees as rooted in both revealed theological sources and accessible to all through the exercise of human reason. Rooted in a biblical, ontological and teleological account of human dignity and the common good, these principles function as a kind of complex ecological web of social ideas, each reliant upon the other for a comprehensive, immanent and transcendent vision of socio-economic life. Nonetheless, the most explicitly economic of these principles are the teachings on 'the universal destination of all goods' and the 'preferential option for the poor'.⁵¹

Second, CST is an explicitly theological form of ethics rooted in a normative account of the human condition. An account of the nature and purpose of human work has become a distinct

⁴⁹ Of particular relevance to our considerations here, see David O'Brien and Thomas Shannon (eds), *Catholic Social Thought*, (Maryknoll: Orbis Books, 2010) for a comprehensive collection of the key social encyclicals from 1891-2009. Also *Compendium of the Social Doctrine of the Catholic Church*, Pontifical Council for Justice and Peace, (London: Burns and Oates, 2005), 255-376; and the document "The Vocation of the Business Leader: A Reflection," produced by the Pontifical Council for Justice and Peace in 2012.

⁵⁰ This summary relates solely to the official tradition of Catholic Social Teaching, not to the wide, plural and more contradictory body of Catholic Social Thought, which is a term used to refer to the informal reflections by Catholic theologians, ethicists and philosophers beyond the official teaching documents of the popes, Church councils, pontifical councils and regional and national bishops conferences.

⁵¹ For a more comprehensive summary of the economic teachings of the social encyclical tradition see Albino Barrera, *Modern Catholic Social Documents and Political Economy*, (Washington: Georgetown University Press, 2001). For a consideration of the economic teaching of the encyclicals in the light of concepts of the good see Patrick Riordan, *The Grammar of the Common Good*, (London: Continuum, 2008):118-150.

centrepiece of the economic anthropology proposed by CST. Most relevant to our concerns here, work itself is considered to be part of the order of goodness. It is a co-creative and virtuous activity, essential to the social, relational and material nature of our being, and a participation in the work of creation and redemption. Work has both objective and subjective elements, which are hierarchically ordered in moral terms towards the subjective value of work. The objective dimension of work refers to “the sum of activities, resources, instruments and technologies used by men and women to produce things”.⁵² The subjective dimension of work refers to the activity or process of production and creation undertaken as action by the human person.⁵³ Man is viewed as the subject and not the object of work, and therefore correspondingly CST affirms the primacy of labour over capital. A series of detailed exhortations towards just prices, living wages, co-management, unionisation and the nurture of skills-based vocational groupings follow from this wider anthropology.

Third, in the context of its teleological reflection on the key areas of social life, giving expression and form to the human vocation, CST offers an account of the broader moral purpose of economic life *per se*. Such teaching focuses particularly on discussion of the nature of economic goods, wealth and poverty. All things perform a service of excellence within the social order particular to their nature, and under the fuller order of a divine life. This leads to an account of economic activity as an intrinsic form of moral activity. The proper purpose of economic activity is the production, distribution and consumption of material goods and services. This is an intrinsic but partial good directed towards a wider extrinsic good—peaceful and fulfilling human co-existence.

Business, as a particular form of economic activity, participates in service to this wider economic enterprise and social good in specific ways. It achieves service to the common good through engaging with excellence in the intrinsic activity appropriate to itself: production of useful goods and services, guided by the principle of justice. CST suggests that this activity be understood in relation to a dual economic and social function. The economic function lies in the generation of wealth through production of goods and services generated to meet real needs and interests. We should note that the human good served by business includes activities that extend well beyond the narrowly functional goals of subsistence, serving all aspects of the human good. Correspondingly, the social function of business lies in facilitating co-operative and co-creative relationships that give concrete expression to the social nature of the human person. Businesses are institutional vehicles for fostering skill and excellence, feeding concrete practices of virtue into both the subjective and objective goods of disciplined and creative human work. In this context, CST affirms in particular the contribution of SMEs, craft-based enterprises and family-based agricultural businesses.

CST has also offered reflection on the particular role of business owners and managers. Here, engagement with the virtue tradition *per se* remains fairly superficial, and tends towards a list of the particular virtues necessary to the exercise of leadership in business. CST highlights

⁵² *Compendium of the Social Doctrine of the Church*, Pontifical Council for Justice and Peace, (London: Burns and Oates, 2005), at 270. Hereafter, Pontifical Council, *Compendium*.

⁵³ Pontifical Council, *Compendium*: at 255-322

diligence, industriousness, prudence in engaging responsible risk, reliability and fidelity in interpersonal relationships, and courage in meeting difficult challenges and in taking difficult decisions.

CST has also increasingly affirmed the importance of the agency exercised by business managers in a social context in which business has become the operational heart of networks of technical, commercial, financial and cultural bonds. Thus, responding to the shift in the kind of cultural power represented by business elites, the social task of the manager (as a contribution to the wider, extrinsic common good) is to exercise a duty of care for both the economic objectives of the company, and to exercise a further duty of care for wider economic efficiency and ‘care of capital’, as the sum of the means of production. Such duty of care includes respect for the concrete human dignity of workers within the company, including those engaged in the enterprise through indirect employment (although without supplanting the necessary role of direct employers); and a commitment to the structuring of work to promote the goods of family life.⁵⁴ This social duty also encompasses oversight of the use of finite resources in a responsible way, with a stress on intergenerational and ecological justice. Here the vision of a wider stakeholder rather than shareholder theory is clear.

Such detailed commentary sits within the context of a wider teaching on the value and limits of a free market.⁵⁵ CST views a truly competitive market as an effective instrument for attaining important objectives of justice. However, the free market is not a fully realised good in itself, but always to be judged against the ends that it seeks to accomplish and in the context of the concrete practices and values that it inculcates on a societal level. An increased concern for the culture of current market system has led to calls within CST for the creation of both an alternative metaphysics of markets rooted in the logic of gift and reciprocal exchange, as well as new subsidiary structures of governance at all levels of business enterprise: within each business to foster new forms of co-management, through local, national, regional forms of association and government. The goal of governance at all levels is to maximise just distribution and meaningful economic participation for all. Just distribution is judged in relation to just prices (consumer), just wages (producer), just returns (owner), and just taxation (community). This treatment of exchange value represents the three facets of justice: commutative, contributive, and distributive.

Piecemeal and unsystematic as this teaching is, CST aims to remain as comprehensive as possible in its account of the human good, and thus whilst it lacks precision in its account of the good, it also retains some virtues of breadth and scope. It does so in so far as it proposes a vision of economic life caught up not only in the search for a temporal common good but also as a pattern of theonomous participation. Secondly, it retains a primary commitment to including all aspects of the human good in analysis of economic life, and makes a priority for a historical foregrounding of the dimension of the human good we seem most at risk of excluding. This is the hermeneutic visible in each social encyclical, written as a dialogue with

⁵⁴ Pontifical Council, *Compendium*, at 336-345.

⁵⁵ Pontifical Council, *Compendium*, at 347-350.

its immediate context. Arguably this leaves a body of theory capable of challenging the direction of a culture at macro and micro levels, but often missing an ability to speak to the more intermediate and internal life of business operations.

Three hermeneutic problems beset any attempt to integrate or compare the economic reflections provided by CST and those latent within MacIntyre's account of virtue. Firstly, CST does not claim to be a systematic form of theory. It defines itself as a pastoral theology oriented towards evangelising the social order. A consequence of its pastoral evolution over time is that CST quickly reveals itself as correspondingly inconsistent. For some this will be grounds to dismiss CST. For others this inconsistency represents less a fundamental logical incoherence and more the consequences of an inevitable historical complexity stemming from its multiple authorship, shifting historical influences, and the necessarily pastoral orientation of the tradition. Secondly, CST remains an explicitly theological form of ethics, rooting its social theory in a normative and analogical account of divine life. MacIntyre's account operates with a systematic, temporal and primarily philosophical account of the good. Therefore, in constructing some level of comparison between CST and MacIntyre we are comparing two related but non-identical forms of social thought. Thirdly, MacIntyre's continuing use of Marx's account of capitalism's systematic injustices,⁵⁶ and his rejection of modern markets highlights that he maintains a more fundamental hostility than that found within CST.

All this being said, whilst MacIntyre's revisionist concept of the common good acts as both a direct critique and corrective to CST, arguably the distance between the two sources can be overstated. The fundamentally Thomist account of the good with which both sources operate provides for a degree of commonality. Our contention here is that there may be significant potential for scholars to offer constructive attempts to reconnect the two systems of thought. Therefore whilst the estrangement between MacIntyre and CST is real, we argue that it might not be viewed as intractable. Our core interest in pursuing such a conversation remains the development of modes of ethical thought most suited to informing business practice. We offer some basic observations below, all of which doubtless deserve further unpacking.

The most well documented point of connection between the two concerns the notion of the common good. MacIntyre transforms the heuristic and analogical account of the common good rooted loosely in intrinsic and extrinsic goods into a fundamental, systematic distinction between internal and external goods: the good in which the aggregation and ordering of the internal goods of practices is seen to constitute the heart of the common good. MacIntyre's usage is consistent with the distinction drawn in CST between the common good and the total good (the sum of all individual goods).⁵⁷ However, it is worth noting two aspects of MacIntyre's notion of goods that appear to differ from CST. First, in his typology of goods as internal and external, and with a primary emphasis on the role of internal goods in the

⁵⁶ See John Cornwell's discussion of MacIntyre's 2011 lecture, "The Irrelevance of Ethics" at <http://www.rustat.org/media/documents/MacIntyre2010.pdf>, accessed 21 February 2014.

⁵⁷ Stefano Zamagni, "Catholic Social Thought, civil economy, and the spirit of capitalism." In Daniel Finn (Ed.) (2010): 63-93, at 71.

generation of the common good, MacIntyre would seem to add a distinction that CST draws only implicitly and inconsistently. Here MacIntyre's work should act at the very least as a stimulus towards a clarification of the terms of the good with which CST operates.

Second, we should note that MacIntyre typically uses the phrase 'common goods', in the plural rather than the singular. This draws attention to the internal / external goods typology, but also acknowledges the sheer variety of goods and the infinite number of ways in which individuals and communities might amalgamate these towards their own good. It may also be a means of drawing attention to the difficulty (perhaps the impossibility) of defining such a thing as *the* common good which might apply to all societies at all times, or to pluralistic societies in our own. Whilst the language may differ subtly between the two sources, the commitment to shared, rational deliberation as the basis for the search for the common good remains in common: "In contemporary societies our common goods can only be determined in concrete and particular terms through widespread, grassroots, shared, rational deliberation" (cited above). MacIntyre's work invites CST to sharpen its account of the ways in which the temporal common good can be sought in a pluralist context.

Third, a similar pattern of critical dialogue can be proposed with regards the principle of subsidiarity. Subsidiarity is evident in MacIntyre's distinction between practices and institutions, and the prioritisation of the former over the latter. Indeed, as with MacIntyre's insightful analysis of goods, it may be that here he makes a further contribution to CST by identifying precisely how the principle might operate inside organisations. Similarly, in relation to the principles of distributism and social justice, the prioritisation of practices over institutions and of internal over external goods, and the attention which is given to the mode of institutionalisation, would seem to offer concrete ways in which these principles might be realised in practice.

As a form of explicit theological ethics, CST is necessarily more heuristic and open-ended in its account of the common good. This heuristic emphasis makes most sense in the context of what might be referred to as the 'double realism' inherent in CST. Whilst MacIntyre's account of the good is grounded in philosophical realism, CST is rooted in both theological and philosophical realism. After Augustine and Aquinas, CST posits in ontological and teleological terms that the true common good is God. As God cannot be fully known, CST's first contribution is therefore to delineate the common good as a theological horizon of possibility, but a possibility that can only be partially known. The ultimate horizon for human dignity and the common good is communion with God as the goal and fulfilment of human desires. By use of analogical reasoning this then leads to a realist account of the common good, focused on the social and fraternal nature of human persons, expressed in the concrete practices that structure human community. It is at this level that MacIntyre's account operates and where he finds the imprecision of CST wanting. The challenge remains for CST to find ways to engage with the need for greater precision whilst retaining the necessary open-endedness of a truly theological account.

To date CST has made no real attempt to engage with—or (less appropriately) to arbitrate between—the differing systematic theories of the good that have emerged from contemporary

Catholic philosophers. John Haldane, Charles Taylor and Alasdair MacIntyre have all offered differing accounts of the human and common good, developed in critical dialogue with CST.⁵⁸ CST rightly leaves open a space for more systematic improvisations on the tradition, but it finds itself potentially impoverished if it does not re-engage with those offerings once they are developed. Engagement with MacIntyre's virtue ethics as the grounds for a deeper pastoral engagement with economic life is but one clear case in point.

III.

The Case of Mis-selling at Lloyds Bank.

Having now laid out the MacIntyrean framework and compared and contrasted it with CST as it stands, it is worth exploring this further by reference to a particular case. This will allow us to ground the discussion of the MacIntyrean concepts, and also allow a subsequent discussion of how applied virtue ethics founded on MacIntyre's work may lead not only to helpful diagnosis but even to prescription as to how business organisations may be reformed. This will also enable a further point of reflection in relation to the development of CST.

On 10 December 2013, the UK's Financial Conduct Authority (FCA – the successor organisation to the Financial Services Authority (FSA)) fined the Lloyds Banking Group plc £28,038,800 (reduced from £35,048,500 due to an agreement to settle at an early stage) “due to serious failings in the systems and controls governing the financial incentives that they gave to sales staff ... [who] sold protection and investment products to customers on an advised basis”.⁵⁹ This, however, was a mere drop in the ocean compared with the £6.325 billion that the Group had set aside as at the third quarter of 2013 as a provision for compensating customers who were mis-sold Payment Protection Insurance (PPI).⁶⁰ What had gone wrong?

Lloyds Banking Group plc consists of Lloyds TSB Bank plc (LTSB) and Bank of Scotland plc (BOS), the latter also including the former Halifax Building Society. As a result of the financial crisis in 2008, the UK Government holds a sizeable stake in the Group of around

⁵⁸ See dialogue between MacIntyre and Charles Taylor on the interpretation of the good: Charles Taylor, “Justice After Virtue” in Horton & Mendus, *After MacIntyre*, at 16-43; and MacIntyre, *A partial response*, at 283-304.

⁵⁹ FCA (Financial Conduct Authority), “Final notice” (2013) issued to Lloyds TSB Bank plc and Bank of Scotland plc, available from <http://www.fca.org.uk/your-fca/documents/final-notices/2013/fsa-final-notice-2013-lloyds-tsb-bank-plc-lloyds-tsb-scotland-plc-and-bank-of-scotland-plc-together-lloyds-banking-group>, accessed 3 January 2014. Hereafter FCA, *Final notice*.

⁶⁰ FCA, *Final notice*, at 30; Lloyds Banking Group, “Q3 2013 Interim Management Statement”, (2013) available from http://www.lloydsbankinggroup.com/investors/financial_performance/company_results.asp, accessed 6 January 2014. Since then, it has set aside a further £1.8 billion, see <http://www.theguardian.com/business/2014/feb/03/lloyds-ppi-compensation-bill-10-billion-pounds>, accessed 18 February 2014.

33%. The firms within the Group are significant players in the provision of protection and investment products in the UK selling, during the ‘Relevant Period’ related to the fine of 1 January 2010 to 31 March 2012, over 1,094,000 products to over 692,000 customers.⁶¹ Although there were differences in the incentive schemes for sales staff (advisers) for the three parts of the Group, the deficiencies in these incentive schemes and the governance arrangements were similar. These schemes:

“included a number of higher risk features, such as variable salaries, bonus thresholds which involved disproportionate rewards for marginal sales, and an advanced payment option that could lead to bonus deficits if sales targets were not met. As a result, advisers who met sales targets qualified for substantial salary rises and bonus payments, while advisers who did not faced salary reductions. There was also a significant bias towards sales of protection products, which was a strategic area of focus for the Firms.”⁶²

Because of this, and the ability of advisers to assess their performance on a daily basis:

“There was a significant risk that, if not adequately controlled, advisers would sell products to customers that they did not need or want in an attempt to reach salary and bonus incentive thresholds.”⁶³

However, the FCA concluded that the systems and controls that were in place were inadequate and, moreover, that the “competency standards” which the firms used to “oversee adviser behaviour and mitigate the risk of unfair customer outcomes” were “flawed.”⁶⁴ Thus, during the Relevant Period:

“71% of LTSB advisers, 32% of Halifax advisers and 39% of BOS advisers received a monthly bonus on at least one occasion even though a high proportion of the sales reviewed had been found by the Firms to be unsuitable or potentially unsuitable.”⁶⁵

In addition to the formal monitoring systems, advisers were supervised by local sales managers. However, the bonuses of these sales managers were determined by the performance of the advisers in their teams. Hence, there was a direct conflict of interest leading to inadequate supervision.⁶⁶ This situation was exacerbated by the lack of management information which might have enabled patterns in individual advisers’ activities to be monitored.⁶⁷

Finally, the governance systems which the firms had in place to oversee this area of activity suffered from “serious deficiencies”:

⁶¹ FCA, *Final notice*, at 3.

⁶² FCA, *Final notice*, at 2.

⁶³ FCA, *Final notice*, at 2.

⁶⁴ FCA, *Final notice*, at 20.

⁶⁵ FCA, *Final notice*, at 2.

⁶⁶ FCA, *Final notice*, at 2, 23.

⁶⁷ FCA, *Final notice*, at 2, 25.

“The root cause of these deficiencies was the collective failure of the Firms’ senior management to identify sufficiently remuneration and incentives given to advisers as a key area of risk. This led to a failure to recognise that it was an area that required specific and robust oversight.”⁶⁸

All in all, this is a sorry tale which is easily re-told in MacIntyrean terms. Before doing so, however, we need first to address the question as to whether the provision of financial services might be considered to be a practice in the MacIntyrean sense.⁶⁹ The argument against, stemming from the mediaeval understanding of the sterility of money,⁷⁰ would be that there are no goods internal to the practice, as banking, and the provision of financial services in general, is all about the achievement of external goods. The argument in favour would run along the lines that the wise investment of financial resources is of benefit to those who have the capital, giving them the opportunity not only to protect but also potentially to increase these external goods thereby enabling subsequent engagement, for themselves or possibly for those who will inherit from them, in various practices which might lead to the achievement of a variety of internal goods. In addition, those who will then have access to the investments of others, for example by way of loans, will also have the opportunity to use these external goods to engage in other practices potentially gaining the internal goods thereby available. For example, one of the first co-operatives created by Don Arizmendiarieta in Mondragon in the 1950s was a bank which “was to become not just the financier of the co-operatives, but the major force in driving forward and shaping their development”.⁷¹ Clearly, questions relating to the purpose of investments and whether they would lead to an increase in the common good arise in any consideration of loan finance, but on the basis of this analysis there would appear to be a *prima-facie* case for allowing the possibility of the provision of financial services as a practice.⁷²

What, then, of the Lloyds Banking Group? Here it seems clear that the firms had lost sight of the purpose to which the practice of providing financial services might have been put,⁷³ had

⁶⁸ FCA, *Final notice*, at 3, see also 23-26.

⁶⁹ See van de Ven, *Banking as professional practice*.

⁷⁰ See, for example, Odd Langholm, *The Aristotelian Analysis of Usury*, (New York: Columbia University Press, 1984). Money was understood to be a concrete substance, such as coins, and for use in exchange. It was not in the nature of money to breed money.

⁷¹ Race Matthews, *Jobs of our Own: Building a Stake-Holder Society: alternatives to the market and the state*, (Annandale: Pluto Press Australia, 1999)

⁷² The case of a friend of one of the authors who faced the choice of he and his family leaving their tenanted farm or purchasing it when the landlord decided to sell up, may be instructive. The farmer approached a number of banks, each of which turned him down based on the business plan he submitted. Finally one bank manager took the trouble to visit him, to talk about his plans and to walk around the farm with him. This bank manager, perhaps in the old style of banking, knew that he was investing in the farmer, not the numbers on the spreadsheet; he provided the loan and the farm is, more than five years later, still solvent.

⁷³ The closest that Lloyds comes to this currently is to state: “Our business is focused on retail and commercial financial services ... it is our role to help businesses and individuals thrive, while making a positive contribution to the communities in which we operate.” Lloyds

systematically subordinated internal to external goods, and so had prioritised the institution over the practice. The incentive schemes directed the advisers away from considering customers' needs, and the good for them, and towards their own pecuniary interests.

Each of the five pre-requisites for organisational virtue were therefore either deliberately ignored or put at risk. The need to ensure that the organisation had a good purpose related to its contribution to the common good of customers and the community more generally was effectively ignored or replaced by erroneous considerations of the achievement of market share, profitability and so forth—the common conflation in business organisations of purpose with success and external goods.⁷⁴ This may have something to do with the mode of institutionalisation of the Group—as a stock-market listed firm, and despite the British Government's current stockholding, the Group would inevitably have faced pressure from the financial markets to maximise returns. Clearly, however, there was a lack of attention to the core practice of providing financial services, one prime consideration being the benefit that customers or clients receive from the products or services provided.⁷⁵

The balance between internal and external goods was clearly under threat, to the extent that the firms may have risked their own survival in the long term (it will be clear from the above that without nurturing the core practice, an organisation may, in effect, “kill itself from the inside”).⁷⁶ The FCA report does not comment specifically on individual agents within the firms, though it seems, in effect, to place the blame with the senior management rather than with the advisers themselves. However, it would appear to be uncontroversial to suggest that the advisers, their direct managers, and the senior management of the firms all demonstrated a lack of virtue in both the design of the incentive and control systems, and in continuing to allow their operation even as evidence mounted of the effect on customers. The firms might claim that in a highly competitive market such practices were necessary for survival, however part of the environment within which the firms operated was the regulation provided by the FCA and its predecessor, the FSA. The FCA report noted that:

“it has for many years been warning firms of the need to manage and control risks to customers arising from financial incentives given to sales staff, in particular in publications relating to the Authority's work on Treating Customers Fairly and payment protection insurance.”⁷⁷

Thus, while the business environment may not have been conducive to virtue, there were strong elements within it which should have alerted the firms to the fact that they were treading on dangerous ground.

Banking Group, http://www.lloydsbankinggroup.com/about_us.asp, accessed 10 January 2014.

⁷⁴ Moore, *Virtue in business*, at 377.

⁷⁵ Moore, *Virtue in business*, at 380.

⁷⁶ Geoff Moore, “On the implications of the practice-institution distinction: MacIntyre and the application of modern virtue ethics to business,” *Business Ethics Quarterly*, 12, 1 (2002): 19-32, at 28.

⁷⁷ FCA, *Final notice*, at 3.

The MacIntyrean framework, then, provides a means of organisational analysis and diagnosis of actual or potential problems within business organisations which have already or might subsequently lead to a deficit of organisational virtue and a failure to contribute to the common good.

Such diagnosis may be as far as CST would wish to go since it serves the purpose of identifying at a broad level of analysis the kinds of issues that might need to be dealt with and provides a vocabulary for doing so. However, the body of work encompassing the application of MacIntyrean virtue ethics to business organisations has gone further to identify a more prescriptive approach.⁷⁸ It is to this that we now turn, leaving a consideration of whether CST would wish to similarly draw on this approach to the conclusions which follow.

IV

Crowding-in Virtue to Business Organisations.

One way of understanding the Lloyds' case is from the perspective of the way in which virtue became 'crowded-out' of the organisation and, by contrast, to identify ways in which virtue might be 'crowded-in' both to Lloyds and to business organisations in general. This takes us into the general area of governance. Governance, of course, is a means of control, and it is often thought that endeavouring to control behaviour will crowd-out virtue. If extrinsic incentives are offered (for example, when children were told they could retain some of the money they collected as charitable donations, the collection went down as a result),⁷⁹ individuals "no longer consider the question from the moral point of view, but rather examine it from the standpoint of their self-interest."⁸⁰

However, organisations clearly need governance systems to operate, so the question that then arises is whether these systems can be designed in such a way that they crowd in, rather than crowd out, virtue. Space here precludes a detailed consideration of the theoretical and empirical studies (mostly from social dilemma games) that offer insights here.⁸¹ But emerging from these a number of mechanisms have been identified,⁸² and it will be informative to discuss these and others in relation to the pre-requisites for organisational identified above.

First, and as discussed above both in general and in relation to Lloyds, there needs to be a consideration of the purpose of the organisation, and an attempt to define this in a way that

⁷⁸ Beadle & Moore, *Organizational theory*; Geoff Moore, "The virtue of governance, the governance of virtue," *Business Ethics Quarterly*, 22, 2 (2012): 293-318. Hereafter Moore, *Virtue of governance*.

⁷⁹ Ernst Fehr & Armin Falk, "Psychological foundations of incentives," *European Economic Review* 46, 4-5 (2002): 687-724, at 709-10.

⁸⁰ Joseph Heath, "The uses and abuses of agency theory," *Business Ethics Quarterly* 19, 4 (2009): 497-528. Hereafter, Heath, *Agency theory*.

⁸¹ See Moore, *Virtue of governance*, at 307-9.

⁸² Moore, *Virtue of governance*, at 309-11.

leads to internal goods (both the excellence of the product or service and the perfection of the practitioners in the process) that contribute to the common good. That this will require discussion with relevant communities, or community representatives, has already been noted. However, this will also require discussion, not only at the highest levels in the organisation but also throughout the organisation. Even if the purpose is largely formulated by the Board, it will need to be shared and thoroughly debated by all members of the organisation in an attempt both to get ‘buy-in’ and also to allow reflection and development over time. That this might require changes to the activities of the organisation should not be ruled out. Hence, this is not a one-off process, but a continual one, and one which all members of the organisation have to be assured derives from a serious commitment to define and live out an organisational purpose that is genuinely for the common good.

In relation to the institution’s primary task of focusing on the practice at the core, various mechanisms can be identified which would help to crowd-in virtue. First, it might be helpful for practitioners engaged in the core practice to think of themselves as engaged in a craft. While this is not necessarily an unproblematic concept, the key point is that, in its mediaeval conception, “craftsmen would always hold to the principles of their craft”;⁸³ they would seek, in other words, to protect the practice against institutional corruption. To do so, they would need to establish a strong group identity and this has also been identified as a means of crowding in virtue. Social dilemma games provide evidence of the benefits that accrue from enabling individuals to identify as part of a group, so enhancing co-operation.⁸⁴ Transparency is a further mechanism for encouraging this; internally, it reduces the “social distance”⁸⁵ between different groups of employees which is then likely to help in enhancing group identity.

There are potential concerns here, however, if such identification is achieved by means of ‘ingroup’ versus ‘outgroup’ behaviour. In the Lloyds’ case, it may have been that the advisers were managed in such a way that, while forming an ‘ingroup’ themselves, they were seen to be potentially expendable, at least individually, creating an ‘outgroup’ as far as the organisation was concerned. This, again, may suggest that the institution and a concern for external goods, rather than the practice and a concern for internal goods, held precedence at Lloyds, and so provides a salutary lesson in ensuring the all members of an organisation feel part of the ‘ingroup’.

Further, to reinforce the sense of an organisation focused on the practice at its core, decision-making processes need to be designed in such a way as to enhance participation and self-

⁸³ Geoff Moore, “Humanizing business: a modern virtue ethics approach,” *Business Ethics Quarterly* 15, 2 (2005): 237-55, at 248 and see 247-52 for a broader discussion of craftsmanship.

⁸⁴ Margaret Blair & Lynn Stout, “Trust, trustworthiness, and the behavioural foundations of corporate law,” *University of Pennsylvania Law Review* 149, 6 (2001): 1735-1810.

⁸⁵ Bruno Frey & Margit Osterloh, “Yes, managers should be paid like bureaucrats,” *Journal of Management Inquiry* 14, 1 (2005): 96-111, at 105. Hereafter, Frey & Osterloh, *Managers paid like bureaucrats*.

governance by the organisation's membership.⁸⁶ Similarly it has been suggested⁸⁷ that virtues need to be embodied in power-balanced structures which take account of the views of different constituencies within the organisation. With regard to the Lloyds' case, the advisers seem to have found themselves on the end of a highly-gearred salary and incentive system which they might have been unlikely to have agreed to had there been consultation about what the selling of financial products in the interests of customers genuinely involved. This also links to the need to design jobs in such a way that intrinsic motivation (the desire to do the job for its own sake), rather than extrinsic motivation (doing the job only for its material rewards), takes precedence. Again, job design at Lloyds clearly emphasised extrinsic motivation promoting both the lure of financial reward and the fear of financial failure.

A further mechanism for enhancing the priority of the core practice is particularly interesting in the context of the Lloyds' case. It has been suggested that in order to crowd-in virtue, employees need to be trusted to undertake their work rather than have onerous performance monitoring;⁸⁸ as Osterloh & Frey observe, "low levels of legal contract enforcement crowd in trustworthiness".⁸⁹ Clearly, this was far from the case in Lloyds'. For employees to respond to and not take advantage of this, however, requires managers who are themselves trustworthy, for example who support employees through periods of illness or if redundancies are threatened.⁹⁰ One way of effecting this may be by an organisation going "out of its way to downplay its hierarchical structure";⁹¹ another mechanism by which the priority of the practice might be enhanced.

We have paid considerable attention to the first two pre-requisites of organisational virtue, deliberately so given their importance and their implications for the three further pre-requisite. Ensuring a balance between the pursuit of internal and external goods may largely be achieved through the mechanisms already identified for ensuring the priority of the practice. However, one further mechanism relates to the issue of executive pay. There is a well-documented concern that those at the top of organisations which pay very high multiples (in the order of hundreds of times) of the pay of average workers, thereby lose the willingness of employees to co-operate.⁹² In other words, if employees perceive that the senior management is there mainly to line their own nests, any sense that the organisation is pursuing a good purpose, or that the practice is being prioritised over the institution, will be difficult to maintain.

⁸⁶ Margit Osterloh & Bruno Frey, "Corporate governance for crooks? The case for corporate virtue." In Anna Grandori (Ed.), *Corporate governance and firm organization: microfoundations and structural forms* (Oxford: Oxford University Press, 2004): 191-211, at 206-7. Hereafter, Osterloh & Frey, *Governance for crooks*.

⁸⁷ Geoff Moore, "Corporate character: modern virtue ethics and the virtuous corporation," *Business Ethics Quarterly*, 15, 4 (2005): 659-685, at 673-4.

⁸⁸ Ian Maitland, "Virtue or control in the governance of the firm," (2008), working paper.

⁸⁹ Osterloh & Frey, *Governance for crooks*, at 203.

⁹⁰ Dan Ariely, *Predictably irrational. The hidden forces that shape our decisions* (New York: Harper Collins, 2008), at 80-84.

⁹¹ Heath, *Agency theory*, at 516.

⁹² Frey & Osterloh, *Managers paid like bureaucrats*, at 104.

In Lloyds' case, the salary of the highest paid director in the year 2011/12 (the end of the Relevant Period) was £3,379,000 of which the performance-related element was 44%.⁹³ Exact comparisons with the salaries of advisors are difficult precisely because of the performance-related element. However, the minimum salary for LTSB advisers during the Relevant Period was £18,189⁹⁴—a ratio with the highest paid director of 1:186. While any critique of such a comparison is inevitably subjective, it may be reasonable to suggest that limiting executive pay well below this level might result in an increased legitimacy to manage employees,⁹⁵ and that the organisation and its senior managers would not then be open to the charge of being inappropriately focussed on external goods.

In relation to the need for virtuous agents at both the practice and institutional levels, the key mechanism is to ensure that employees with pro-social intrinsic preferences are selected⁹⁶ and nurtured. This recognises that this needs to be realised not only in recruitment and selection processes but also in the continuing development of individuals within the organisation, and relates to the internal good of the perfection of practitioners in the process of engaging in the organisational practices. It may have been that the incentive schemes that Lloyds offered attracted and then nurtured individuals with self-seeking rather than pro-social attributes, leading to a vicious cycle which it might have been difficult to break.

Finally, in relation to the pre-requisite of a conducive environment, we noted above that this was not an entirely a 'given' and that particularly those in senior positions in the organisation should see this as something they themselves could help create and influence. Clearly, employing and nurturing managers with pro-social interests would help here. In addition, external transparency—ensuring that key constituencies outside of the organisation are kept appropriately informed—is a mechanism for enhancing the legitimacy of the organisation and so encouraging a more conducive environment within which organisational virtue might flourish.

Perhaps unsurprisingly, there are links between many of these mechanisms; it would not be difficult to imagine a situation in which external transparency and a good purpose attracts pro-social individuals who are intrinsically motivated towards the work they do, work co-operatively and need little supervision. Obviously, external motivation is still important and organisations cannot assume that virtuous individuals will work for a pittance, nor that they would not be motivated by some appropriate level of performance-related pay. As with many of these mechanisms, it will be a matter of judgment in reaching a balanced position.

As already noted in some cases, these mechanisms are consistent with the MacIntyrean framework which we described earlier. There should, as a result of implementing these, be a consistent focus on the core practice and the excellence of the product or service and,

⁹³ Lloyds Banking Group, "Annual Report and Accounts," (2012) available from http://www.lloydsbankinggroup.com/investors/financial_performance/company_results.asp, accessed 6 January 2014, at 107.

⁹⁴ FCA, *Final notice*, at 8.

⁹⁵ Frey & Osterloh, *Managers paid like bureaucrats*, at 105.

⁹⁶ Osterloh & Frey, *Governance for crooks*, at 204-5.

potentially at least, the moral development of the individual practitioners involved in it. Extrinsic motivation (pay, status and so forth at the individual level, profit at the organisational level) are not ignored, and external goods are accepted for what they are, but without getting the balance between internal and external goods out of kilter. The organisation thereby has the potential, through the provision of its internal goods, to contribute to the common good of the community. Together, these mechanisms might assist in making the implications of the diagnosis that a MacIntyrean analysis offers a reality in business organisations.

Conclusion.

Having considered the lacuna within CST in relation to the ‘inside’ of business organisations, we have offered a MacIntyrean framework of goods, virtues, practices and institutions as a potential solution to this. In providing a summary of CST and then comparing and contrasting this with MacIntyre’s approach, we have noted how CST may benefit in a number of specific areas; there would seem to be a good ‘fit’, even if further work is required to explore and expand on this and, indeed, to bring the work of others into this conversation.

However, we have then gone further, first by providing a detailed case study in order to ground the MacIntyrean concepts, and then by discussing how governance systems may be designed which would enable virtue to be crowded-in. We noted above, that this may be further than CST would wish to go, since it begins to encroach on the area of policy prescription rather than (simply) seeking to make potentially abstract theological principles concrete. CST may be more comfortable with the “middle axiom”⁹⁷ approach to Christian social ethics, located between statements of general principle and prescriptive programmes of action.

Even if this were the case, however, MacIntyre provides resources for understanding the opportunities that work organisations provide for both the realization of common goods and for their frustration. It provides a warning for what people in business should guard against and how the virtues enable such resistance. We thus wish to suggest that MacIntyrean virtue ethics offers a distinctive contribution to CST and one which, if integrated within CST, would enable it to make an even more significant contribution to business ethics than has hitherto been the case.

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⁹⁷ See, for example, Malcolm Brown, *Tensions in Christian Ethics. An Introduction*. (London: SPCK, 2010), at 91-92.

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